



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Enriching knowledge series: Learn more about stock listing, bonds and funds investment

June 2012

External Relations

Rundown

- Part 1: New stock listing methods
- *Break*
- Part 2: Credit ratings and iBonds
- Part 3: RQFII funds
- Q&A



Part 1: New Stock Listing Methods



Stock Exchange of Hong Kong



Companies

- **Primary market**
 - Go public
 - A venue for raising funds



Stock Exchange
(SEHK)



Investors

- **Secondary market**
 - An open and public market for exchanging stocks



Stock Exchange of Hong Kong

- There are two markets on the SEHK



- **Main Board (主板):**

- For more established companies with previous trading and profit records

- **Growth Enterprise Market (GEM) (創業板):**

- For growth companies that may not have a track record of profits

Dual Filing System

- **SFC as the statutory regulator of corporate disclosure**
- **Listing applicants authorises the SEHK to file the materials submitted with the SFC on their behalf**
- **The SFC:**
 - has the right to comment on the draft listing documents
 - reserves power to object to a listing application if the information published in the documents is insufficient or misleading.



Listing methods

- **Initial Public Offering (IPO)** [首次公開招股]
- **Listing by Introduction** [介紹形式上市]
- **Hong Kong Depositary Receipts (HKDRs)** [香港預託證券]
- **Real Estate Investment Trust (REITs)** [房地產投資信託基金]
- **Stapled Securities** [合訂證券]



Initial Public Offering (IPO)

- **Public subscription**
 - White forms
 - Yellow forms
 - eIPO
- **Placing**
 - Offer shares to persons selected by the underwriters
- **Combination of the above two**



IPO Subscription

Application Form	Target investors	In which form	Registered in whose name	Shareholder status
<i>White</i>	Investors who prefer to have shares registered in their own name	Physical share certificate	The applicant	Legal owner (法定擁有人)
<i>Yellow</i>	Investors who prefer to have their shares entrusted to their intermediary / their Investor Participant Account at CCASS	Immobilised form	HKSCC Nominees Ltd. 香港中央結算(代理人)有限公司	Beneficial owner (實益擁有人)



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Listing by Introduction

- **Securities are already widely held by a large number of shareholders prior to listing**
- **No offer of securities to the public**
- **No additional funds will be raised**
- **No marketing arrangements are required**
- **Commonly found where:**
 - Shares have already been listed on another exchange; or
 - Shares are being migrated from one exchange to another
- **Example: Glencore International plc (Stock Code: 00805)**



Difference between IPO and Listing by Introduction

	IPO	Listing by Introduction
Raise new funds	✓	X
Issue new shares	✓	X
Listing of shares already in issuance	X	✓



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Hong Kong Depository Receipts (HKDRs)

- **A way for a foreign company to tap the local capital market if regulations of the company's home country discourage overseas listings**
- **Allow local investors to invest in foreign companies listed on overseas exchanges through trading their HDRs on the SEHK**
- **Can be listed through IPO or by introduction**
- **Example: Coach, Inc. -RS (Stock Code: 06388)**



Hong Kong Depository Receipts (HKDRs)

- **Depository: A bridge between DR holders and the foreign company**
- **DRs:**
 - Issued by a depository (usually a bank) as agent of a foreign company
 - Represent the shares of such company that the depository or its nominated custodian holds
 - May represent a fraction of a share, a single share or multiple shares
 - Track the price of the underlying shares in its home market



Hong Kong Depository Receipts (HKDRs)

	Shares listed in Hong Kong	Hong Kong Depository Receipts
Can be listed on main board	Yes	
Can be listed on Growth Enterprise Market (GEM) board	Yes	No
Trading & Settlement	Subject to standard Hong Kong market procedures	
Related charges	Brokerage commission, transaction levy, trading fee and stamp duty	Brokerage commission, transaction levy, trading fee and stamp duty Fees charged by depositaries
Entitled to dividends	Yes	Yes, net of any applicable taxes and the depositary's fees
Entitled to voting rights	Yes	
Corporate Communications	Via related share registrar	Via related depositary



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Real Estate Investment Trust (REITs)

- **A collective investment scheme**
- **Aims to deliver a source of recurrent income to investors**
- **Focused investment in a portfolio of income-generating real estate such as shopping malls, offices, hotels and service apartments**
- **Example: The Link Real Estate Investment Trust
(Stock Code: 00823)**



Real Estate Investment Trust (REITs)

- **SFC-authorized REIT:**
 - has transparent investment policy and objectives
 - is subject to a high standard of corporate governance
 - provides regular income distribution to investors (Dividend: $90\% \leq$ net income after tax)



Real Estate Investment Trust (REITs)

REITs vs. Property Stocks

	REITs	Property Stocks
Investment	Has a well defined investment policy and invests primarily in income-generating real estate	Not restricted to doing business in property investment and property development
Dividend Policy	Has to be at least 90%	May change from time to time
Debt Ratio	May borrow up to 45% of its gross asset value	May borrow more



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Stapled Securities

- **Business enterprises can be set up in the form of a trust instead of a company**
- **A trust is a legal relationship where one party (the trustee) holds the right to the trust asset and deals with that asset for another party (the beneficiary) under circumstances specified in a trust deed.**
- **Stapling:**
 - Means two different securities are "stapled" together for the purposes of trading or transfers
 - Facilitates the application of the SFO and other regulatory requirements
 - Regulatory standards applicable to listed companies will also apply to the stapled securities



Stapled Securities

■ Stapled securities:

- Business enterprises can be set up as a trust instead of a company. Most overseas markets do not have specific legislation to regulate business trusts, except Singapore.
- Stapled securities structures involving trusts have evolved. Whilst in some jurisdictions, such kind of structures may be for tax or other purposes, in Hong Kong it enables the application of the same standards of regulation as listed companies.
- Stapling means that two different securities are "stapled" together for trading or transfer. Stapled securities are traded like a stock but generally speaking its components cannot be traded separately.
- Example: HKT Trust and HKT Ltd. - SS (Stock Code: 06823)



Stapled Securities

- **The available listed stapled securities structure in Hong Kong has the following key features: -**
 - The trust invests in the company which holds the assets. Unlike business trusts or the trusts under a stapled structure in overseas markets, it has a passive role and does not participate in active business operations. Instead the business activities are conducted by the company that the trust owns.
 - The number of units in the trust must always be the same as the number of shares of the company. The trust units and company shares can only be traded or transferred together, i.e., as a stapled security.



Stapled securities vs stocks

	Stapled securities	Stocks
Differences		
Trading	Stapled securities comprise different components, for example, units in a trust and shares, and such components should together be traded with a single stock code	Stocks contain no components
Dividends/ distributions	<p>Have express distribution policy to investors</p> <p>Percentage of distribution is normally set out in the trust deed and should be disclosed in the prospectus</p>	<p>Do not necessarily receive dividends</p> <p>Whether there is any dividend and the amount of dividend received are subject to the dividend policy determined by the board of directors</p>
Similarities		
Share registration	<p>A certificate issued as evidence of ownership of stocks or components of stapled securities</p> <p>Both stapled securities and stocks can be held under the investor's own name or via an account with an intermediary (e.g. bank, brokerage)</p>	
Trading and settlement	Traded, cleared and settled on the SEHK and quoted on a single price	
Shareholders' rights	<p>Receive notices, circulars and financial statements relating to a trust or a stock</p> <p>Investors of stocks and stapled securities enjoy similar voting rights</p>	



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Part 2: Credit Ratings and iBonds



Credit Rating

- **The issuer's credit worthiness reflects its ability to pay you what you're owed**
- **Investors should be aware that the credit rating is only an opinion of the particular credit rating agency and may change from time to time**
- **Work of Credit Rating Agencies (CRAs) :**
 - Offer credit ratings, which essentially represent their opinions on how likely an issuer or a debt security will default on its financial obligations
 - Conduct additional analysis of current and prospective factors - including market conditions and economic outlook - that may also affect creditworthiness in the future
 - Do not make recommendations.
 - Note! Credit quality is not a measure of asset value or investment merit in most cases



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Credit Rating

- Only a handful of CRAs dominate financial markets
- Each has its own credit rating scale
- Depending on their ratings, issuers or debt securities are referred to variously as "investment grade" or "speculative/ non-investment grade"

Credit Rating	High	→	Low
Moody's	Long-term: Aaa	→	C
	Short-term: P-1	→	P-3, Not Prime
Standard & Poor's	Long-term: AAA	→	D
	Short-term: A-1+	→	D
Fitch	Long-term: AAA	→	D
	Short-term: F1+	→	D



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Credit Rating – Regulatory Regime

- **New regulatory regime came into effect on 1 June 2011**
- **CRAs and their rating analysts who provide credit rating services in Hong Kong are required to be licensed for Type 10 regulated activity**
- **On 1 June 2011, the SFC issued Type 10 licences to five CRAs :**
 - A.M. Best Asia-Pacific Limited
 - CTRISKS Rating Limited (理信風險評級有限公司)
 - Fitch (Hong Kong) Limited (惠譽國際評級有限公司)
 - Moody's Investors Service Hong Kong Limited
 - Standard & Poor's Hong Kong Limited



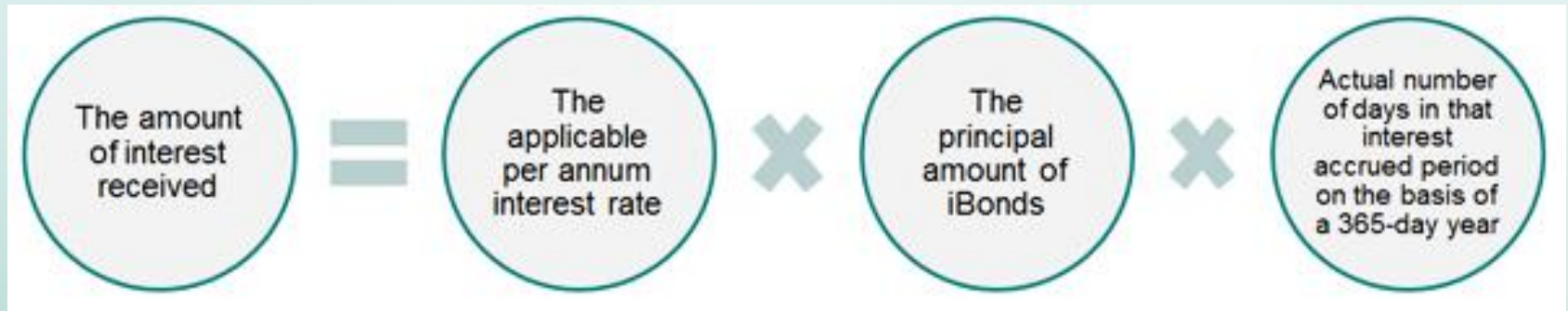
iBond

- **In July 2011, the HKSAR Government announced the roll out of the inflation-linked retail bond, also known as iBond**
- **Second batch: June 2012**
- **Term: 3 years**
- **Minimum denomination: HK\$10,000**
- **Half-yearly interest payments (whichever higher):**
 - Linked to the average year-on-year inflation measured by the Composite Consumer Price Index (CPI)
 - Minimum interest rate of 1.00% per annum
- **HKSAR Government will repay 100% of the principal amount at maturity**



iBond Interests Calculation

- The interest amount to be received is calculated based on this formula:



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Secondary Trading

- **iBonds can be traded on the SEHK**
- **The trading is in units of HK\$100 each in principal amount**
- **Each trading lot: 100 units**
- **Interest due from the last interest payment date to the settlement date, or in the case of a transaction that is settled before the first interest payment date, from the issue date to the settlement date, is normally paid to the bond seller from the bond buyer.**



Secondary trading – interest due

- **If the transaction is settled before the first interest payment date**
 - Per annum interest rate is the one announced by the Government in advance
 - Determined based on the higher of the Fixed Rate or Floating Rate on the announcement date of the relevant bond
 - Not the actual per annum interest rate for the first interest payment date !!!
- **If the transaction is settled after the first interest payment date**
 - Per annum interest rate used in calculating accrued interest will be that of the immediate preceding interest payment date



Major Risks

- **Credit risk** (creditworthiness of HKSAR Government)
- **Interest rate risk** (Bonds / Deposit / inflation)
- **Index risk** (Interest rate linked to an index, e.g. CPI)
- **Liquidity risk** (inactive secondary market)
- **Intermediary risk** (well-being of brokerage or bank)



Part 3: RQFII Funds



RQFII Funds

- **RQFII = Renminbi Qualified Foreign Institutional Investor**
- **A new policy initiative of the Mainland authorities**
- **Allow qualified RQFII holders to channel renminbi funds raised in Hong Kong to invest into the Mainland securities markets**
- **Holders may issue public or private fund or other investment products using their RQFII quotas**



Features of RQFII Funds:

- **Renminbi-denominated**
- **Must invest primarily in renminbi bonds and bond funds issued in mainland China (At least 80%)**
- **May also invest in China A-shares and other equity investments permitted (Not more than 20%)**



Key Risks of RQFII Funds

- **Risks relating to the RQFII regime**
 - Uncertainty to the implementation of RQFII policy and rules
- **Risks relating to Mainland markets**
 - Concentrated investment in securities and bonds issued in mainland China
 - Probable risks in political, tax, economic, foreign exchange, liquidity and regulatory aspects
 - Risks and uncertainties associated with the current Chinese tax laws



Key Risks of RQFII Funds

- **Currency risk**
 - Exchange rate of renminbi may rise or fall
 - Renminbi is currently not freely convertible
- **Market / investment risk**
 - No guarantee of the repayment of principal or dividend payment
 - Investment in the fund may suffer loss even if renminbi appreciates.



Additional risks factor of Mainland bonds / debt instruments investing

- Risks of investing in Mainland bond markets and of unrated or below investment grade bonds
- Risks associated with local Mainland credit ratings
- Interest rate risk
- Credit risk
- Liquidity risk



Subscription of an RQFII Fund

- **Points to note:**

- RQFII fund manager can only invest up to the amount of their approved RQFII quota
- They may close the subscription during (and before the end of) the initial offering period if the total subscription reaches the approved RQFII quota amount
- Understand the nature, investment objective and strategy, key features, fee structure and risks of an RQFII fund
- Consult your intermediaries (e.g. banks or fund companies) if in doubt of any product features or terms and conditions
- Fees and charges involved in fund investment



RQFII Funds vs. Renminbi Funds

RQFII Funds	Renminbi Funds
<ul style="list-style-type: none">• Invest renminbi directly in the Mainland securities markets through the RQFII quotas• Will not invest outside the Mainland	<ul style="list-style-type: none">• Not all issuers have the pre-approved RQFII investment quota• Can only invest either in offshore renminbi denominated investments (e.g. dim sum bonds) or non-renminbi assets





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